



**Valley
Farm Credit**

**Valley Federal Land Bank Association, FLCA
Valley Production Credit Association**

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JUN 29 1998

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June 26, 1998

CALFED Bay-Delta Program
1416 Ninth Street, Suite 1155
Sacramento, CA 95814

Re: Comments on CALFED Draft
Programmatic EIS/EIR

Valley Federal Land Bank Association, FLCA and Valley Production Credit Association, (collectively referred to as Valley Farm Credit) submits the following comments on the draft CALFED Programmatic EIS/EIR:

CALFED's draft Programmatic Environmental Impact Statement/Environmental Impact Report provides important insight into the status and possible direction of managing the Sacramento-San Joaquin Delta.

Valley Farm Credit provides mortgage and commercial credit in Tulare, Kings and Kern counties to approximately 2,000 farming customers. Currently, combined mortgage and commercial loan volume is \$650,000,000. Valley Farm Credit is part of the national Farm Credit System, which is a network of cooperative lending institutions owned by farmers and ranchers. Farm Credit's loan volume in California alone is approximately \$4.2 billion.

Our sole business is lending to agriculture. Because of this narrow focus, Valley Farm Credit is especially sensitive to conditions that jeopardize the credit worthiness of producers and processors we serve. Our past experience in dealing with proposed changes to laws and regulations, that impact the availability and cost of agricultural water, have convinced us that proponents of reform all too often either overlook or do not adequately consider the effect such change could have in limiting or denying credit access for capital needs of agricultural water users. Without the assurance of a continued supply of adequate good quality water for use on irrigated real estate, a grower's access to capital is seriously limited.

When a grower applies for an agricultural production or long-term mortgage loan, a lender will evaluate many factors to ascertain the applicant's credit worthiness. Included in the list of evaluation factors is the durability of the property value. A prime determinant of durability is the continued availability of irrigation water over the life of the loan, particularly mortgage loans with terms of 20 to 30 years. We believe it is essential that any CALFED final solution protects this dependability and provides sufficient safeguards for third party impacts.

The need for a long-term Bay-Delta fix is indisputable. However, we view the proposed solutions as having significant consequences for the agriculture community, including those that provide credit to agriculture, such as Valley Farm Credit, commercial banks, insurance companies, etc. While CALFED makes a number of proposals in its draft programmatic EIS/EIR regarding the management of the Delta, these comments will focus on those which propose to convert agricultural land and water to other uses. We believe any CALFED final solution should enhance California's environment and economy – particularly agriculture. California agriculture and related activities cannot be ignored as being a major contributor to the state's economy that provides multiple benefits to all Californians.

Agricultural Land and Water Conversion:

CALFED's common programs and alternatives include proposals to retire and/or convert agricultural land and water to other users. Large-scale land retirement or conversion, for any purpose, will have profound economic, social and environmental consequences.

The specific land and water conversion proposals included in the CALFED draft EIS/EIR that includes the area Valley Farm Credit serves are as follows:

• Ecosystem Restoration	9,300 – 11,000 acres
• Water quality Program	35,000 – 45,000 acres
• Depending upon which alternative is selected, additional agricultural land will come out of production because of surface storage construction.	<u>16,600 acres</u>
TOTAL	60,900 – 72,600 acres

In addition, neighboring Farm Credit and other agricultural lending institutions, both to the north and south, encompasses 90% of the potential 914,000 acres of land retirement in CALFED's proposal. Losing that much land clearly is a disproportionate burden on this area of the State's farmers and ranchers and the impact simply cannot be ignored.

In addition to generating economic activity, privately owned California farmland is critical to the tax base of rural communities. Retiring farmland or converting it to habitat via government acquisition will remove these lands from the tax rolls, placing additional burdens on local governments, school districts, etc. with declining tax revenues. Large-scale land retirement would have devastating impacts on the water districts serving those lands. Many water districts have incurred large debts to build their distribution systems. Fixed costs, including bond debt repayment, are usually covered by assessments or other charges levied on each acre serviced by the district. If acreage is retired, the fixed costs previously allocated to that land must be covered by the land remaining in production. Land retirement would have similar impacts on reclamation districts. The citizens served by these districts would face higher costs, pushing some out of business.

Ultimately, many of the proposals advanced by CALFED and the environmental community with respect to farmland retirement and conversion fail to satisfy CALFED's Solution Principles. Specifically, land retirement does not reduce conflicts because demands on the State's water system will continue to exceed capacity. Retirement does not meet the test of equitability when the devastation of agricultural production and rural economic activity are compared to uncertain and minimal environmental benefits. Land retirement is not affordable when viewed in the context of its impact on economic activity, employment, and local governments. Finally, land retirement clearly violates the principle of no significant redirected impacts.

The process needs to look at other ways to keep land productive, on the tax rolls and in private ownership.

Water Transfers:

Water transfers have been going on for some time. Valley Farm Credit supports the inclusion of voluntary short-term water transfers and exchanges as a component of an integrated and balanced long-term CALFED package so long as rights from such practices are not jeopardized. Water transfers can both benefit the environment and enhance water supply reliability. However, we are concerned about the lack of analysis currently taking place regarding water transfers. We believe it can be an effective management tool for farmers under appropriate circumstances. However, water rights of the transferring entity must continue to be protected and must not be jeopardized by changed transfer regulations.

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Finally, new water storage must be part of the solution. It's time this is fully recognized and dealt with. The pressures of California's rapidly increasing population demand that the state enlarge its available water supply and delivery system. We will need water to support 50 million people, while maintaining agriculture and the environment. California's water storage and conveyance capacity must be enhanced before water transfers can play a role in resolving water management issues. Without jeopardizing the objectives outlined above, the regulatory approval process for transfers must be streamlined to the maximum extent possible to encourage and facilitate cost-effective and timely transactions in accordance with state law. Current active water transfer markets should not be diminished by new transfer rules arising out of CALFED.

Water Rights:

CALFED must not diminish water rights, and must not base its solution on redirection of ag water and conversion of farmland to other uses. California's water rights law is founded on a priority rights system developed to ensure the certainty of water supplies to those investing in water projects. California must maintain this system of law that has guided allocation and use decisions since statehood.

When both the Central Valley Project and State Water Project were constructed, areas of origin laws were enacted to ensure the ability to grow with adequate water supplies. Increasingly, state and federal agencies and water users fail to recognize these laws and commitments. This places high anxiety on ag water users and their lenders who must be certain of water rights running with the land which has been placed as collateral for a 20-30 year loan. It's a well-known fact that agricultural land is of very little value, if any, without water.

Any business with links to agriculture has a stake in the California water situation. Valley Farm Credit is keenly interested in the success of the CALFED process, but will only support a solution that benefits agriculture throughout the state. We appreciate the attention provided to this very important matter.

Yours truly,



J. Allen Akkerman
President



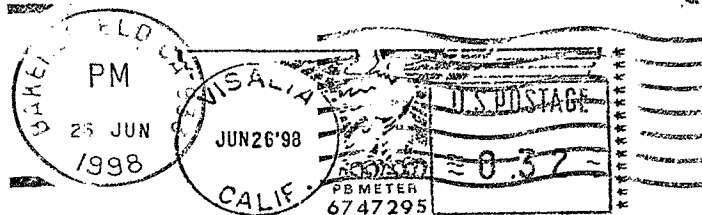
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